

Report
of the
Examination of
Employees' Mutual Benefit Association
Milwaukee, Wisconsin
As of December 31, 1998

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June 25, 1999

Honorable Connie L. O'Connell
Commissioner of Insurance
State of Wisconsin
121 East Wilson Street
Madison, WI 53702

Commissioners:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

EMPLOYES' MUTUAL BENEFIT ASSOCIATION (EMBA)
Milwaukee, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of the society was conducted in 1993 as of December 31, 1992. The current examination covered the intervening period ending December 31, 1998, and included a review of such 1999 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the society's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Society
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the society's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the society to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the society's operations is contained in the examination work papers.

The society is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

The society was organized in 1912, and commenced business September 3, 1914, under the Wisconsin laws applicable to fraternal benefit societies. The society is licensed under Chapter 614 of the Wisconsin Statutes and is authorized to write the lines of life and annuities and disability insurance in the states of Michigan and Wisconsin. The society currently only writes disability insurance.

The society writes direct premium in the following states:

Michigan	\$ 13,872	3%
Wisconsin	<u>448,541</u>	<u>97</u>
	<u>\$462,413</u>	<u>100%</u>

The society chose to cease writing life insurance and to cede all prior life business through an assumption reinsurance agreement with National Mutual Benefit (NMB) effective December 31, 1992. At December 31, 1998, NMB's liability for EMBA life business was \$1,719,423. The growth of the society is discussed in the Financial Data section of this report.

The major product marketed by the society is disability insurance marketed to employees of the Wisconsin Energy Corporation and its subsidiaries (the sponsoring company). At present, the society plans to continue to offer disability insurance. These policies allow for cancellation by the fraternal with 30-day notice, and the rates can be adjusted for the whole class at any time.

The policies provide benefits ranging from \$10 to \$25 per day for up to a year for lost wages due to sickness or accident after a four-day waiting period. Also, included in the policy are accidental death and dismemberment benefits up to a maximum of \$6,000. The society paid \$275,316 in accident and health benefits in 1998. The society does not reinsure the business.

EMBA uses three funds. They are the Sickness and Accident Fund for operation of the insurance business, the Relief Fund for the reimbursement of its operating expenses by the sponsoring company, and the Charitable Fund to operate employee supported charities including the sponsoring company's Employee Fund (United Way). A Life and Scholarship Fund was discontinued as of January 1, 1997.

III. MANAGEMENT AND CONTROL

Membership

EMBA consists of regular and retired members. A regular member is a current employee of the Wisconsin Energy Corporation or any of its subsidiary companies who is at least 18 years old who has been accepted for membership. Regular members have the right to vote on the affairs of EMBA and may hold office. A retired member is a former employee of the Wisconsin Energy Corporation who has retired on a pension, and was formerly a regular member of the fraternal. A retired member may participate in the affairs and activities of the society, but may not hold office or vote.

Growth of Membership

Year	Members*	Issued	Ceased	Policies
1993	5,798	50	100	3,912
1994	4,730	10	329	3,593
1995	4,458	20	551	3,062
1996	4,413	11	476	2,597
1997	4,836	26	92	2,531
1998	5,150	71	70	2,532

*Active employees eligible for fraternal benefits

Board of Directors

The board of directors is the supreme governing body and consists of 18 directors having two-year terms. Each of the 12 chapters elects a director in a mail vote. The sponsoring company has the authority to appoint six directors. The directors receive no compensation as board members. The meetings of the board are held during normal working hours and attendance is considered a work-related activity.

A thirteenth chapter is being formed in 1999, which will require amendments to the articles of incorporation and the bylaws. The articles and bylaws were previously amended on December 6, 1994, reducing the board of directors from 36 to 18 and the number of chapters to 12. Prior to 1995 there were 24 chapters each electing a director, and the sponsoring company appointing 12 directors.

The bylaws require regular meetings of the board to be held quarterly. The organizational meeting of the board of directors and the annual meeting of the members are held each year on the second Tuesday in April.

Currently the board of directors consists of the following persons:

Elected		
Name and Residence	Principal Occupation	Term Expires
Vicki Greaux, Oconomowoc, WI	Customer Service Representative	2000
Todd Hanneman, Racine, WI	Power Plant Control Operator	2001
Mark Kimball, Fredonia, WI	Power Plant Mechanic	2000
John Marosa, Waukesha, WI	Operations Supervisor	2000
Dorothy Mitchell, Lake Geneva, WI	Inspector – Gas	2001
Robert Phefferkorn, Two Rivers, WI	Electrician – Nuclear	2000
Jay Porter, Eagle, WI	Distribution Planning Engineer	2001
Gary Schroeder, Iron Mountain, WI	Customer Service Representative	2001
Kenneth Vanderweilen, Menasha, WI	Laer Line Mechanic	2000
Robert Weis, Mukwonago, WI	Insturment Technician	2001
Susan Ziegler, South Milwaukee, WI	Secretary - Power Marketing	2001
Appointed		
Perry Bishop, Milwaukee, WI	Sourcing Team Leader	Indefinite
Juan Carrasquillo, Greenfield, WI	Manager – Supply Chain – Generation	Indefinite
Gail DeVeau, New Berlin, WI	Manager – Supply Chain – Corporate Ctr.	Indefinite
Joyce Feaster, Mequon, WI	Assistant Corporate Secretary	Indefinite
Richard Rouse, South Milwaukee, WI	Distribution Fitter – Gas	Indefinite

The society is two board members short of the number specified by the articles of incorporation, one each from the elected and the appointed directors. Patricia F. Drysdale, executive assistant plant manager, Marquette, Michigan, is to be installed as an elected board member from the new thirteenth chapter in July 1999.

Officers of the Society

The officers are elected or appointed each year by the board of directors. Those serving at the time of this examination are as follows:

Name	Office
Susan M. Ziegler	President
Dennis J. Mastricola	Treasurer
Joseph G. Kopinski	Secretary
Kenneth Vanderweilen	Vice President
Robert Carignan	Assistant Secretary
Dr. Dennis Schulz	Medical Director

The president and the vice president are board members and change each year. The secretary and the treasurer are elected by the board of directors from the members but are not voting board members. The secretary performs administrative duties for EMBA and is hired by the human resource department of the sponsor. The treasurer holds a similar position with the sponsoring company. The society uses the medical doctor contracted with by the sponsor. EMBA has no employees of its own. All EMBA functions are done by personnel of the sponsoring company or affiliates or by service providers approved by officials of the sponsoring company. EMBA receives compensation from the sponsoring company to cover its administrative expenses.

Committees of the Board

The society's bylaws allow for the formation of certain committees and other committees as deemed necessary. The committees are appointed by the president with approval by the board of directors. The president acts as ex-officio member of each committee. The committees appointed at the time of the examination are listed below:

Executive Committee

Ken VanderWeilen, Chair
Perry Bishop
Gail DeVeau
Jay Porter
Vickie Stoltenberg
Robert Weis
John Marose - Alternate

Insurance Committee

Juan Carrasquillo, Chair
Pat Drysdale*
Joyce Feaster
Dorothy Mitchell
Bob Phefferkorn
Rick Rouse
Gary Schroeder

Investment Committee

Dennis Masticola, Chair
Dorothy Mitchell

Ad-Hoc Committee

Juan Carrasquillo, Chair
Perry Bishop
Vickie Greau
Mark Kimball
John Marose
Dorothy Mitchell
Ken VanderWeilen

By-Law Committee

Robert Weis, Chair
Pat Drysdale*
Todd Hannemann
Mark Kimball
Jay Porter
Ken VanderWeilen

*After being installed

IV. AFFILIATED COMPANIES

EMBA is a member of a holding company system. The sponsoring company appoints one-third of the board, and hires the fraternal's administrator, the medical director, and the treasurer. All board members, and officers of the society are employees of Wisconsin Energy Corporation and its affiliates. All functions are performed in the sponsoring company's building. Pursuant to a 1971 agreement, the sponsoring company pays the society's administrative and fraternal expenses. In 1998, those expenses were \$306,514.

The relationship between EMBA and the sponsoring company is a holding company relationship under the definitions of ch. Ins 40, Wisconsin Administrative Code, as the utility has the power to direct EMBA's affairs. Therefore, the sponsoring companies are presumed to be controlling affiliates within the meaning of s. 600.03 (1) and (13), Wis. Stat. Information on affiliated transactions was not included on Schedule Y of the annual statement. However, information on affiliates was reported in the Notes to EMBA's Financial Statements.

V. FINANCIAL DATA

The following financial statements reflect the financial condition of the society as reported in the December 31, 1998, annual statement to the Commissioner of Insurance. Adjustments made as a result of the examination is noted in the section of this report captioned "Reconciliation of Members' Surplus per Examination." Also included in this section are schedules which reflect the growth of the society, comment on any exceptional NAIC Insurance Regulatory Information System (IRIS) ratio results for the last five years, and the compulsory and security surplus calculation.

Employees' Mutual Benefit Association
Assets
As of December 31, 1998

	Ledger Assets	Nonledger Assets	Nonadmitted Assets	Admitted Assets
Bonds	\$ 99,986	\$	\$	\$ 99,986
Cash	158,794			158,794
Short-term investments	410,597			410,597
Investment income due and accrued	2,203			2,203
Receivable from subsidiaries and affiliates	17,109			17,109
Write-ins for other than invested assets:				
Charity Fund-A/R Loans To Members	109,662			
	<u> </u>	<u> </u>	<u> </u>	<u>109,662</u>
Total Assets	<u>\$798,351</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$798,351</u>

Employees' Mutual Benefit Association
Liabilities, Surplus, and Other Funds
As of December 31, 1998

Aggregate reserve for accident and health certificates	\$ 54,261
Certificate and contract claims:	
Accident and health	16,087
Premiums and annuity considerations received in advance	36,524
Amounts withheld or retained by society as agent or trustee	7,487
Miscellaneous liabilities:	
Payable to subsidiaries and affiliates	74,555
Write-ins for liabilities:	
Charity fund-contributions held for distribution	<u>291,781</u>
Total Liabilities	<u>480,695</u>
Write-ins for surplus funds:	
Claims fluctuation fund	137,658
Unassigned funds (surplus)	<u>179,998</u>
Total Surplus	<u>317,656</u>
Total Liabilities, Surplus, and Other Funds	<u>\$798,351</u>

**Employees' Mutual Benefit Association
Summary of Operations
For the Year 1998**

Premiums and annuity considerations	\$ 462,421
Net investment income	32,302
Write-in for miscellaneous income:	
Charity fund-contributions received	650,064
Relief fund-support from sponsor company	<u>306,514</u>
Total income items	<u>1,451,301</u>
Disability, accident, and health benefits including premiums waived	275,316
Increase in aggregate reserve for life and accident and health certificates and contracts	<u>5,064</u>
Subtotal	280,380
General insurance expenses and fraternal expenses	356,758
Write-in for deductions:	
Charity fund-contributions and grants	<u>643,520</u>
Total deductions	<u>1,280,658</u>
Net gain from operations before refunds to members	170,643
Refunds to members	<u>224,196</u>
Net gain from operations after refunds to members and before realized capital gains or (losses)	(53,553)
Net realized capital gains or losses	<u>0</u>
Net Income	<u>\$ (53,553)</u>

Emloyes' Mutual Benefit Association
Cash Flow
As of December 31, 1998

Premiums and annuity considerations	\$ 462,413		
Net investment income	32,302		
Write-ins for miscellaneous income:			
Charity Fund-contributions received	650,064		
Relief Fund-support received from sponsor comp.	<u>306,514</u>		
Total		\$1,451,293	
Disability, accident and health benefits	<u>275,316</u>		
Subtotal	275,316		
General insurance expenses and fraternal expenses	36,612		
Write-ins for deductions:			
Charity Fund-contributions and grants made	643,520		
Relief Fund-operating costs charged to sponsor company	306,514		
Refunds to members paid	<u>224,196</u>		
Total deductions		<u>1,486,158</u>	
Net cash from operations			\$ (34,865)
Proceeds from investments sold, matured, or repaid:			
Bonds	<u>200,000</u>		
Total investment proceeds		200,000	
Net cash from investments			200,000
Cash provided from financing and miscellaneous sources:			
Other sources	<u>38,731</u>		
Total		38,731	
Net cash from financing and miscellaneous sources			<u>38,731</u>
Net change in cash and short-term investments			203,866
Reconciliation			
Cash and short-term investments,			
December 31, 1997			<u>365,525</u>
Cash and short-term investments,			
December 31, 1998			<u>\$569,391</u>

**Employees' Mutual Benefit Association
Compulsory and Security Surplus Calculation
December 31, 1998**

Assets		\$798,351	
Less liabilities		<u>480,695</u>	
Surplus			\$317,656
Annual premium:			
Accident and health	\$462,413		
Less refunds to members	<u>224,196</u>		
Subtotal	238,217		
Factor	<u>15%</u>		
Compulsory surplus		<u>35,733</u>	
Compulsory surplus excess			<u>\$281,923</u>
Surplus			\$317,656
Security surplus:			
(140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million with a minimum of 110%)			
			<u>50,026</u>
Security surplus excess or (deficit)			<u>\$267,630</u>

**Employees' Mutual Benefit Association
Reconciliation and Analysis of Surplus
For the Six-Year Period Ending December 31, 1998**

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	1993	1994	1995	1996	1997	1998
Surplus, beginning of year	\$449,653	\$586,742	\$ 563,857	\$341,152	\$ 518,578	\$284,103
Net Income	168,291	(20,197)	(171,378)	113,282	(149,535)	(53,553)
Change in asset valuation reserve	2,522	60	48	139	141	564
Write-ins for gains & (losses) in surplus:						
Consolidation adjustments		0	(51,375)	64,005	(85,081)	86,542
Contingency reserve	(33,724)	(1,276)				
Scholarship fund	<u> </u>	<u>(14,410)</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Surplus, end of year	<u>\$586,742</u>	<u>\$550,919</u>	<u>\$ 341,152</u>	<u>\$518,578</u>	<u>\$ 284,103</u>	<u>\$317,656</u>

The society adjusted the beginning surplus for 1995 by \$12,938 over the 1994 ending surplus, which EMBA indicated, was from the consolidation of funds for the first time. In 1994 and prior years the society's annual statements included only the Sickness and Accident Fund, and not the Relief and Charitable Funds. Years prior to 1995 were not restated in the above schedule for comparative purposes.

**Employees' Mutual Benefit Association
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 1998**

The following IRIS ratios had exceptions during the five-year period ending

December 31, 1998:

Ratio No. 1—Net Change in Unassigned Funds and Special Reserves (Surplus)

NAIC exceptional results are any values less than or equal to -10% or greater than or equal to 50%

1995	-38	1996	52	1997	-45
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Ratio No. 2—Net Gain to Total Income

NAIC exceptional results are any values less than or equal to 0

1994	-3	1995	-11	1997	-10	1998	-12
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Ratio No. 9—Change in Premium

NAIC exceptional results are any values less than or equal to -10% or greater than or equal to 50%

1994	-11	1995	-17
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Ratio No. 11—Change in Asset Mix

NAIC exceptional results are any values greater than or equal to 5%

1995	7.2
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The exceptional values reported in "Test No. 1" and "Test No. 2" were the result of refunds to members in keeping with the society's plan to gradually return excess unassigned funds to members. Ratio #9 exceptions for 1994 and 1995 are a result of the down sizing of the sponsoring company. Ratio #11 exception for 1995 is from a change to investing in short-term investments instead of bonds.

Growth of Employees' Mutual Benefit Association

Year	Admitted Assets	Liabilities	Members' Surplus
1993	\$ 758,663	\$171,921	\$ 586,742
1994	712,010	161,091	550,919
1995	1,075,117	733,965	341,152
1996	954,358	435,780	518,578
1997	805,469	521,366	284,103
1998	798,351	480,695	317,656

Year	Net Investment Income	Gain from Operations Before Refunds	Refunds to Members
1993	\$44,218	\$168,291	\$ 0
1994	38,602	(20,197)	0
1995	38,692	104,018	275,396
1996	48,756	171,662	58,380
1997	44,431	230,468	380,003
1998	32,302	170,643	224,196

Accident and Health

Year	Net Premiums Earned	Net Losses Incurred	Commissions Incurred	Other Expenses Incurred	Combined Loss and Expense Ratio
1993	\$661,092	\$523,494	\$0	\$11,703	81.0%
1994	587,917	646,646	0	70	110.0
1995	488,488	407,411	0	11,972	134.9
1996	478,939	272,686	0	24,141	65.1
1997	460,327	239,787	0	33,237	59.3
1998	462,420	288,318	0	36,512	70.2

Effective December 31, 1992, EMBA entered into an assumption reinsurance agreement, with National Mutual Benefit (NMB), a fraternal benefit society located in Madison Wisconsin. Through this agreement, EMBA ceded all of its life policies to NMB. NMB assumed direct liability for the policies and any related liabilities. In 1995 an obsolete policy with a daily benefit of one dollar was terminated through a buyback program costing \$19,300. In years 1995 through 1998 EMBA distributed significant portions of its surplus to members through refunds as noted in the above schedule.

Reclassification per Examination

Examination Reclassifications

	Debit	Credit
Short-term investments	\$	\$410,597
Common stocks	305,870	
Cash	<u>104,727</u>	<u> </u>
Total reclassifications	<u>\$410,597</u>	<u>\$410,597</u>

There were no adjustments to surplus for the examination. Members' surplus of \$317,656 at December 31, 1998, as reported by the society, was verified by the examination.

VI. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were seven specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the society are as follows:

1. Bylaws – It is recommended that the society amend its bylaws in order to comply with s. 614.10 (1) and 614.12 (4), Wis. Stat.

Action – The society has complied with this recommendation.

2. Board of Directors – It is recommended that the board remove directors who do not attend the board meetings on a regular basis, in accordance with article IV of its articles of incorporation.

Action – This is still a concern, but the society is considered in compliance because of the circumstances.

3. Fidelity Bond – It is recommended that the society obtain fidelity coverage which would meet the standard set by Examiners Handbook with no deductible.

Action – The society has complied with this recommendation.

4. Conflict of Interest Forms – It is recommended that the society obtain conflict of interest statements from all officers, directors, or responsible employees yearly.

Action – The society is considered in compliance with this recommendation. One director and two responsible employees did not have a form signed for 1999.

5. Accounts and Records – It is again recommended that future annual statements include accounts to properly reflect all amounts in the control of the society.

Action – The society has complied with this recommendation.

6. Business Plan – It is recommended that the society submit a business plan which includes any proposed rate or benefit changes, any changes in membership dues, any changes in providers of or costs of administrative services, and a pro forma balance sheet and summary of operations for two years.

Action – The society has complied with this recommendation.

7. Business Plan – It is recommended that any change in the 1971 expense agreement be reported to this office at least 30 days prior to the effective date, pursuant to s. 617.21 (2), Wis. Stat., and s. Ins 40.04 (2) (d), Wis. Adm. Code, subject to disapproval by this office.

Action – The society has complied with this recommendation as there have been no changes since the last examination.

Summary of Current Examination Results

Annual Report to Members

In accordance with s. 614.43, Wis. Stat., every domestic fraternal shall send to each member having insurance or publish in the official publication under s. 614.41 (1), Wis. Stat., an annual report to members which shall contain basic financial and operating data, information about important business developments, and such other information as the fraternal wishes to include to keep members adequately informed. The society does not send or publish an annual report to its members. EMBA also does not publish an official publication, but includes information sometimes in the sponsoring company's publication. It is recommended that the society comply with s. 614.43, Wis. Stat., for annual report to fraternal members.

Board of Directors

The society has had difficulty maintaining a full board of directors. Currently the board has two vacancies, one each from those elected and those appointed. The last several years only 16 of the 18 director positions have been filled. It is recommended that the required number of directors be appointed and elected, and that vacancies be filled as soon as possible to be in compliance with the bylaws and articles of incorporation.

Minutes

The review of minutes noted that :

1. Attendance is not noted at the annual meeting of members.
2. The annual election or appointment of directors and term is not noted in the minutes.
3. The last two years the medical director has not been appointed by the board of directors as required by the articles of incorporation.

It is recommended that the minutes record the attendance at the annual meeting of members. It is also recommended that the minutes record the election or appointment of the directors and the medical director and their terms.

Articles and Bylaws

The articles of incorporation and the bylaws were last amended by the board of directors on December 6, 1994. The minutes noted there were only 10 directors present out of the 36 directors then on the board. The articles and bylaws require a majority vote of the directors

to amend. It does not appear that this was done when they were amended. Also, the wording in the articles of incorporation for amending the articles requires approval of the members. It does not appear that this was done. It is recommended that the amendment of the articles of incorporation be done in accordance with the provisions of the articles of incorporation.

A review of the articles and bylaws noted that they need to be amended because they are not current with the society's practices. Following are some of the items noted:

1. There is to be an application for membership and certificates issued after being approved. Currently, to be a member a person just needs to be an employee of the sponsoring company and no application is required.
2. A new chapter and director is being added which requires amendments.
3. The board is to appoint a number of committees. The committees for ritual, visiting, auditing, and claims have not been appointed in at least the last three years.
4. Article 12(a) of the articles of incorporation indicates that any amendment is to be done by the directors and a vote of the members. This is not being done.
5. Some of the bylaws when last amended were not renumbered.
6. The bylaws specify that there will be regular board meetings quarterly. Currently the board is meeting three times a year plus the organization meeting of the board.
7. The articles of incorporation still reference Wisconsin Natural Gas Company which has merged into Wisconsin Electric Power Company.
8. Article 12 of the articles of incorporation state that upon adoption of changes to the articles they shall be furnished to all regular members as provided in the bylaws. However, nothing was found in the bylaws regarding this.

It is recommended that EMBA amend its articles of incorporation and its bylaws to reflect the current practices of the society and to correct any errors or inconsistencies.

Members' Surplus

EMBA is currently collecting data to be used by its actuary to do a comprehensive actuarial study of its disability plan, for possible increases in benefits or premium reductions. The actuarial review was approved by the board of directors on December 9, 1997. The previous review was done February 14, 1986. The society has also agreed to have the actuary review the claims fluctuation fund for accuracy and adequacy. The society establishes 50% of the paid claims for that year as the year-end surplus reserve. The fund is established as a voluntary reserve to provide for possible unfavorable claims experience from physical concentration of workers at power plants and at the home office.

EMBA has in recent years distributed substantial amounts of its surplus to members in the form of premium refunds. In 1997, for example, EMBA distributed \$380,003 to members, while maintaining year-end surplus of \$284,103. It is recommended that EMBA maintain members' surplus of at least \$300,000 at all times.

Accounts and Records

The following deficiencies were noted in the completion of the annual or the quarterly statements, or in certain procedures:

1. The Summary of Operations did not have the previous year-to-date column completed for the March 31, 1999, quarterly statement.
2. Schedule D-Part 1B was not completed for the March 31, 1999, quarterly statement.
3. Annual Statement Schedule Y, Parts 1 and 2 were not completed for transactions with affiliates.
4. Exhibit 1- Part 1 of the annual statement does not identify new business, but classifies all business as renewal.
5. The notes to financial statements did not have eight notes completed the last three years, and did not have any of the notes completed in the 1995 annual statement.
6. General Interrogatories numbers 23 and 24 were answered incorrectly in the 1998 annual statement.
7. The Supplemental Exhibits and Schedules Interrogatories were not completed for most of the years under examination.

It is recommended that the society correct the deficiencies noted and complete future annual and quarterly statements in accordance with the NAIC Annual Statement Instructions-Fraternal.

Testing of premium records noted that the payroll department of the sponsoring company maintains a payroll database. EMBA does not maintain a policy register of its own. It relies on the sponsoring company to send them information on current policyholders and premium payments. It is recommended that the society maintain a policy register that is updated monthly for all policyholders and includes the policy number, policyholder's name, effective date of the policy, term of the policy, premium amount, type of risk, and coverage. The policy files do not include the deck sheet or a policy schedule in the file. If this information is not kept in the policy file, it should be included in either the policy register or in another computer database. The society did not have accurate individual records of premium received, with the current paid date and/or effective date. Premiums are collected from members through payroll deduction by the

sponsoring company. The society receives a check for each of the different payroll disbursements for the premiums withheld. It is recommended that the society regularly reconcile the disbursements from payroll to its policy register.

A review of claims noted that the society does not have a loss claim register. Claim sheets for each claim are kept in alphabetical order. A numerical listing of claim number and claimant was not available for 1999. Also, the claim sheets did not have all the payments listed or the date notified. It is recommended that the society maintain a claim register with the necessary information for recording all claims reported, in claim number order. The register should contain the claim number, policy number, name, date reported, date of disability, first day off, cause of disability, total amount paid, and last day paid. All claims reported to the society, which includes those reported to the sponsoring companies, should be assigned a claim number when reported, including claims closed without payment.

Short-term Investments

Schedule DA listed \$410,597 for two money market funds. A non-negotiable certificate of deposit for \$104,727 was incorrectly listed as a money market fund. Also, according to the NAIC's annual statement fraternal instructions, this type of certificate of deposit should be reported in Schedule E for cash. Schedule DA also included two Goldman Sacs money market mutual funds totaling \$305,870. The money market mutual funds held by the society should have been classified as common stocks and included in Schedule D-Part 2-section 2. It is recommended that the society report money market mutual funds and certificates of deposits in accordance with the NAIC Annual Statement Instructions-Fraternal pursuant to s. Ins 50.20 (1) (b), Wis. Adm. Code.

Charity Fund-A/R Loans to Members

This asset represents unsecured interest free loans to members. The money comes from contributions by members. Loans are approved by EMBA's executive committee. The society does not have a year-end entry to reduce the receivable for uncollectible or overdue loans. In order to conservatively state this asset, it is recommended that the society age the loans for

past-due amounts, and classify uncollectable amounts and amounts past due over 90 days as “nonadmitted assets.”

Payable to Affiliates

This liability account includes the following:

Accounts Payable	\$29,396
Accounts Payable-Wepco	45,000
Other Liabilities	<u>159</u>
Total	<u>\$74,555</u>

Included in the \$29,396 accounts payable is \$5,492 that goes back to 1994 and 1995. After the society’s review, it was determined that \$5,492 was due to a bookkeeping error and would be written off to miscellaneous income in 1999.

The \$45,000 Accounts Payable-WEPCO is an interest-free cash advance to EMBA from Wisconsin Electric as the sponsoring company. The Notes to Financial Statements reflects that the society does not have borrowed money, except \$45,000 in working capital provided at no interest by the sponsoring company.

VII. CONCLUSION

The society is unique in that it is operated for the benefit of employees of Wisconsin Energy Corporation and subsidiaries. The administrative expenses to operate the society are paid by the employing companies in the system. All personnel of the society are employees of the sponsoring companies. EMBA has given refunds to its members in each of the last four years. This has resulted in a net loss in three of those years. The society's surplus has decreased from \$586,742 at the end of 1993 to \$317,656 at December 31, 1998. The examination recommends that the society retain at least \$300,000 in members' surplus at all times.

The examination verified the financial standing of the society and determined that the society substantially complied with the prior recommendations. The current examination recommends updating the articles and bylaws and certain improvements to the accounting system and financial statements.

VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 19 - Annual Report to Members - It is recommended that the society comply with s. 614.43, Wis. Stat., for annual report to fraternal members.
2. Page 19 - Board of Directors - It is recommended that the required number of directors be appointed and elected, and that vacancies be filled as soon as possible to be in compliance with the bylaws and articles of incorporation.
3. Page 19 - Minutes - It is recommended that the minutes record the attendance at the annual meeting of members. It is also recommended that the minutes record the election or appointment of the directors and the medical director and their terms.
4. Page 20 - Articles and Bylaws - It is recommended that the amendment of the articles of incorporation be done in accordance with the provisions of the articles of incorporation.
5. Page 20 - Articles and Bylaws - It is recommended that EMBA amend its articles of incorporation and its bylaws to reflect current practices of the society and to correct any errors or inconsistencies.
6. Page 21 - Members' Surplus - It is recommended that EMBA maintain members' surplus of at least \$300,000 at all times.
7. Page 21 - Accounts and Records - It is recommended that the society correct the deficiencies noted and complete future annual and quarterly statements in accordance with the NAIC Annual Statement Instructions-Fraternal.
8. Page 21 - Accounts and Records - It is recommended that the society maintain a policy register that is updated monthly for all policyholders and includes the policy number, policyholder's name, effective date of the policy, term of the policy, premium amount, type of risk, and coverage.
9. Page 22 - Accounts and Records - It is recommended that the society regularly reconcile the disbursements from payroll to its policy register.
10. Page 22 - Accounts and Records - It is recommended that the society maintain a claim register with the necessary information for recording all claims reported, in claim number order.
11. Page 22 - Short-term Investments - It is recommended that the society report money market mutual funds and certificates of deposits in accordance with the NAIC Annual Statement Instructions-Fraternal pursuant to s. Ins 50.20 (1) (b), Wis. Adm. Code.
12. Page 22 - Charity Fund-A/R Loans to Members - In order to conservatively state this asset, it is recommended that the society age the loans for past-due amounts, and classify uncollectable amounts and amounts past due over 90 days as "nonadmitted assets."

IX. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the society is acknowledged.

In addition to the undersigned, the following representative of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination:

Name	Title
Jeff Sanford	Financial Examiner

Respectfully submitted,

Andrew M. Fell
Examiner-in-Charge
Bureau of Financial Analysis and Examinations

EMBA Exam Report